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SIPDIS

FROM U.S. MISSION IN ROME

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USDA/FAS FOR CHAMBLISS
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E.O. 12958: N/A

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SUBJECT: UPDATE ON USG/WFP CARGO PREFERENCE EXEMPTION FOR
CALCULATION OF INDIRECT SUPPORT COSTS (ISC) ON OCEAN
TRANSPORT

REF: ROME 00839

1. Summary. WFP, USAID and USDA are close to reaching an agreement on a mechanism to implement separate tracking of US cargo preference premium payments to conform to WFP auditor recommendations and ensure that WFP does not apply its indirect support cost (ISC) rate against the cargo preference premiums paid by the United States. End summary.

2. Background. Reftel described pertinent history and discussions through March 2004 regarding the exemption of the WFP indirect support cost (ISC) rate to US cargo preference premiums. Among other things, it mentioned the Board's decision to exclude ISC on US cargo preference premiums for ocean transportation through December 31, 2003. WFP management, in continuing to exclude cargo preference premiums from ISC into 2004, risks the wrath of its Executive Board. Furthermore, the absence of agreement on the treatment of cargo preference premiums raises the specter of unfunded liabilities.

3. Nevertheless, WFP represents that the parties to a proposed 3-party agreement, WFP, USAID, and USDA, have nearly reached an understanding, and WFP's external auditor, having been provided a copy of the draft agreement, has endorsed the approach taken.

4. All parties agree that cargo preference premiums will be recognized as separate and distinct from ocean transport contributions. WFP's auditors are expected to recognize cargo preference premiums as an immaterial cost administered at no charge by WFP on behalf of the US. ISC will be applied to ocean transport contributions, but not to cargo preference premiums.

5. The parties also agree that it is neither practical nor desirable to record actual and imputed foreign freight rates for each shipment for purpose of calculating ISC. Rather, the parties seek agreement on foreign flag threshold (FFT) rates representing the weighted average global ocean freight rates for US-donated commodities from US ports and excluding cargo preference premiums for US flag carriers. Tentatively, the FFT rates are \$68/ton for bulk commodities and \$112/ton for packaged commodities, and they shall apply to the current US fiscal year through September 2004. Revised rates will be negotiated and applied in subsequent years.

6. Under the proposed agreement, USAID for Title II agreements agrees to set up one additional (separate) account to effect total reimbursement to WFP. For ocean freight excluding cargo preference, USAID will provide reimbursement as follows:

- For foreign flag shipments, the full ocean freight;
- For US flag shipments, the lowest acceptable foreign flag offer provided by WFP or the full US flag cost where the accepted US flag offer is below the FFT; and
- Where there is no foreign flag offer, the FFT rate will apply.

7. As part of the draft accord, USAID will provide reimbursement for cargo preference premiums as follows:

- The difference between the lowest acceptable foreign flag offer and the accepted US flag offer when the latter is greater; and
- Where no foreign flag offer is available, and the

accepted US flag offer exceeds the FFT, the difference between the US flag rate and the FFT rate.

18. In addition to the above, proposed language changes to the standard provisions and transfer authorization documents for the next pledge period are also being considered. WFP will be reminded that it and/or its

freight forwarding agent will solely be responsible for tracking the cargo preference premium costs and attributing costs to the appropriate freight reimbursement award.

19. USDA for its contributions to WFP will annotate its current agreements appropriately to reflect the FFT versus the cargo preference premium portion of its contributions.

10. Comment from Ambassador Hall: WFP has made a good-faith effort to devise a mechanism that its auditors will accept related to the separate tracking of cargo preference premiums. Considering that we are well along into WFP's 2004-2005 biennium, I encourage the parties to finalize the agreement quickly. Hall

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